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Granduc

GRANDUC MINES, LIMITED

(NON-PERSONAL LIABILITY)

ANNUAL
REPORT
1974

Granduc

GRANDUC MINES, LIMITED
(NON-PERSONAL LIABILITY)

The Annual General Meeting of the Shareholders will be held on April 30, 1975 at 10:00 A.M. in the Board Room of the Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia.

DIRECTORS

G. H. Davenport
W. J. Grismer
Henry L. Hill
J. Norman Hyland
W. H. Love

OFFICERS

J. Norman Hyland, President
W. H. Love, Vice-President
P. I. Conley, Secretary and Treasurer
L. John Creery, Assistant Secretary

AUDITORS

Peat, Marwick, Mitchell & Co., Vancouver

TRANSFER AGENT

Canada Trust Company, Vancouver
and Toronto

HEAD OFFICE

Room 2009, 1177 West Hastings Street,
Vancouver, B.C. V6E 2K3

DIRECTORS REPORT TO THE SHAREHOLDERS

For the year ended December 31, 1974 your Company recorded a loss of $101,602 contrasted with an earning of $757,998 in 1973. While the Company's share of mining income on an accrual basis from the Granduc Mine increased by $1,062,812 over 1973, the provision for amortization and depletion of preproduction costs and mining properties was $1,911,730 greater than in 1973. The reason for this substantial increase is explained in greater detail in the section of this Report dealing with Ore Reserves. Other operating costs, net of interest income, were approximately equal with 1973, therefore the unfavourable comparison with 1973 is attributable to the increased charge for amortization and depletion.

1974 was a year of sharp contrast for Granduc. The first six months were marked by high operating volumes, and favourable copper prices, which resulted in monthly cash flows to your Company. Commencing in mid year, problems were encountered in maintaining a full complement of miners and tradesmen and average daily production declined. This drop in production rate coincided with the beginning of a fall in copper prices, application of the B.C. Mineral Land Tax legislation, and a rapid escalation of all operating costs. The combination of these negative factors resulted in a loss operation for the last quarter of the year.

The mine operating experience in 1974, by comparison with 1973 is summarized in the following table:

	Year Ended Dec. 31, 1974	Year Ended Dec. 31, 1973
Tons of ore milled	2,708,731	2,797,949
Average tons of ore treated — per day	7,421	7,666
Average grade of mill feed — % copper	1.23	1.25
Tons of concentrate produced	113,408	119,576
Average grade of concentrate — % copper	28.11	28.03
Pounds of copper produced	63,758,209	67,066,752
Ounces of gold produced	9,802	9,811
Ounces of silver produced	584,265	623,005
Average copper price — London Metal Exchange, U.S.¢ per lb.	93.127	80.73

Under the terms of its Lease Agreement, Granduc Mines, Limited receives 22½% of the defined net proceeds of the mine operation. The net proceeds for any period are determined by deducting from the net smelter returns received in cash, the operating expenses and capital expenditures incurred during such period. Any deficiency is deductible from future net proceeds. The cash accounting presentation described above does not reflect a value for the concentrate at the end of each accounting period for which cost has been incurred but full cash settlement not yet received. Commencing in 1973, therefore, your Company instituted an accrual basis of accounting and it is the accrual basis comparison which is detailed in the following statement. It should be noted that Granduc's share of unsettled concentrate inventory at the end of an accounting period is valued at the lower of cost or market. In 1973, the valuation was at cost and in 1974 at market.

	Year Ended December 31 1974 Accrual Basis	1973 Accrual Basis
Net Smelter Returns received in Cash	$57,758,378	$39,892,508
Deduct:		
Operating Expenses	39,952,355	22,659,756
Capital Expenditures	1,614,866	883,365
Estimated B.C. Mineral Land Taxes	1,673,392	
	43,240,613	23,543,121
Excess of net smelter returns over operating expenses, capital expenditures and B.C. mineral land taxes	14,517,765	16,349,387
Accumulated deficit at beginning of year		(6,555,226)
	$14,517,765	$ 9,794,161
22½% share applicable to Granduc Mines, Limited	$ 3,266,498	$ 2,203,686

Statement of Earnings and Deficit

On an accrual basis, Granduc's share of mining income of $3,266,498 constitutes the revenue figure in the Statement of Earnings and Deficit. The deductions from revenue are:

(a) a non-cash cost of $3,000,477 for depletion and amortization of preproduction expenses incurred prior to the effective date of the Lease Agreement.

(b) an amount of $293,044 representing interest payable on advances received from American Smelting and Refining Company and Granduc Operating Company and for interest payable on notes issued to Hecla Mining Company in connection with the purchase of a portion of the Company's outstanding preferred shares.

(c) $112,979 in general administrative costs and the costs associated with the maintenance of mineral claims. In addition, the institution of a British Columbia Capital Tax created a charge of $52,000 in 1974 covering the years 1973 and 1974.

Investment of the Company's cash assets in short term deposits during the year produced interest income of $90,400 which helped to offset the cash costs detailed in (c) above.

After these deductions the loss for the year 1974 was $101,602.

Granduc's Cash Position:

While the Company sustained a loss for the year as a result of the large non-cash charge for amortization and depletion, a positive cash flow was achieved. This enabled the Company to make payments totalling $1,749,589 to reduce the amount payable in advances from mining companies and to make payments of $1,600,000 to reduce the Notes Payable arising from the purchase of 693,000 of the Company's issued 5½% cumulative preferred shares. Following this purchase, 357,000 5½% cumulative redeemable preferred shares remain outstanding. At December 31, 1974 the Company had working capital of $770,297 compared with a deficiency of $10,134 at the end of 1973.

Ore Reserves:

Ore reserves at the end of 1974 were estimated at 22,322,000 tons averaging 1.71% copper before dilution, compared with 32,951,000 tons averaging 1.64% copper before dilution at the end of 1973. This reduction of 10,629,000 tons includes the quantity milled in 1974 (2,708,731 tons) but more particularly highlights the elimination by the Lessees of approximately 8,500,000 tons of the deeper and lower grade reserves below the 2100 foot elevation.

Newmont Mining Corporation, the managing lessee, provided in their accounts for an extraordinary write-off of unamortized plant and mine development based on the above elimination of a portion of the ore reserves. As it is too early to make a definitive assessment of the future profitability of the mine, Granduc has continued to follow the conventional method of amortizing pre-production expenditures and depletion of mining properties by calculating an annual charge based upon the tons of ore milled and for which revenue has been realized in relation to the estimated ore reserves. The substantial reduction in reserves at December 31, 1974 necessitated a higher allocation for amortization and depletion per ton of ore milled and thus increased this cost by $1,911,730 over 1973.

British Columbia Mining Legislation:

The controversial Mineral Royalties Act and the Mineral Land Tax Act of the Province of British Columbia became law during 1974 and the negative and destroying influence of this legislation is becoming increasingly apparent throughout the British Columbia mining industry.

In 1974, the estimate of B.C. Mineral Land Tax applicable to the Granduc Mine is approximately $1,675,000. This amount is taken "off the top" by the Provincial Government and is in obvious contrast with the position of your Company which had a loss on its operation, and with the position of the shareholders, who have yet to realize any return on their original high risk $25,000,000 investment after more than 20 years of persistent endeavor.

During the debate on the Provincial Mining Royalty legislation in the spring of 1974, your Company wrote a letter to each member of the Provincial Legislature. One paragraph of that letter expressed a concern which has now become a reality.

> "Up to the present time, Granduc secures its ore from that part of its reserves above the main haulage level of 2600 feet. Almost half of the ore body lies below this level and will be more expensive to mine. We are concerned that the provisions of Bill 31 may render much of this ore reserve uneconomic and thus reduce the mine life by many years."

The action of the Lessees in eliminating 8,500,000 tons of the deeper and lower grade reserves is the unfortunate confirmation of this prediction.

The Outlook for 1975

The prospects for 1975 are not hopeful. In December 1974, Granduc Operating Company announced that it was cutting production at the mine by reducing the operating rate to approximately 4000 tons per day, as against the former operating levels of up to

8000 tons per day. This involved a reduction of the work force from 800 to less than 400. The Lessee stated that this action was necessitated by the very rapid increase in labour and supply costs, the mining royalty imposed by the Provincial Government and the sharp decline in the world copper price.

In taking this regrettable step, the Lessees hope to reduce the large cash losses which would result from operating the mine at its former capacity of approximately 8000 tons per day during the current low level of copper prices. At this reduced level of production, the mine will be able to operate on presently developed reserves and will thus defer the cash costs associated with a continuing development program.

A further contributing factor is the need for a major capital expenditure to mine the ore reserve below the 2600 ft. level. Mine operators accept the cyclical swings in the prices of the metals which they produce and to date, decisions on capital expenditures have been based on assumptions of **average prices** over the life of an asset. With the Provincial Royalty Tax however, this average can be substantially reduced because the tax is structured to participate fully in the high price swings and to offer no relief in the downswings. This has added a new and negative dimension to capital decisions in the mining sector.

For 1975, the best we can hope for is that the reduced scale of operations will be beneficial to unit costs and that some improvement in copper prices will materialize.

The Mine Operation:

J.H. Parliament, Vice President and General Manager of Granduc Operating Company has submitted a Report on Operations for the year 1974. This Report is reproduced in full in this Annual Report and we recommend its reading to the Company's shareholders.

Further, during 1974 your Directors instituted the procedure of periodic visits to the mine by a qualified independent mining consultant followed by a written report to the Board of Directors. The Lessees cooperated fully in expediting this practise and we are confident that these periodic reports will assist your Board in keeping informed on the condition of the property and the mining operation.

We thank all Shareholders for their continuing support and particularly those who write to us during the year. The Annual General Meeting will be held on Wednesday, April 30, 1975 in the Board Room of the Hotel Vancouver at 10:00 a.m. Pacific Daylight Time.

ON BEHALF OF THE DIRECTORS

J. NORMAN HYLAND
President

Vancouver, B.C.
March 24, 1975

GRANDUC MINES, LIMITED (Non-Personal Liability)
BALANCE SHEET
December 31, 1974 with comparative figures for 1973

	1974	1973
Assets		
Current assets:		
Cash and short-term bank deposits	$ 803,171	8,302
Accounts receivable	1,400	3,735
Total current assets	804,571	12,037
Deferred royalties receivable (Note 1)	1,197,340	2,203,686
Mining properties, at cost (Note 1)	1,065,000	1,065,000
Less accumulated depletion (Note 2)	260,607	132,786
	804,393	932,214
Mine development and pre-production expenditure, less accumulated amortization of $5,856,884 (1973 — $2,984,228) (Notes 2 and 3)	18,077,891	20,950,547
	$20,884,195	24,098,484
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank demand loan	$ —	15,000
Accounts payable and accrued expenses	34,274	7,171
Total current liabilities	34,274	22,171
Notes payable to shareholder (Note 4):		
Interest bearing, including accrued interest	1,892,038	—
Non-interest bearing	614,207	—
	2,506,245	—
Advances from mining companies and accrued interest (Note 1)	4,789,804	6,273,387
Shareholders' equity (Notes 1 and 4):		
Capital stock:		
5½% cumulative redeemable preferred shares of $5 par value per share. Authorized 1,050,000 shares; issued and outstanding 357,000 shares (1973 — 1,050,000 shares)	1,785,000	5,250,000
Common shares of $1 par value per share. Authorized 8,000,000 shares; issued 3,363,022 shares	3,363,022	3,363,022
	5,148,022	8,613,022
Contributed surplus	11,117,487	11,117,487
Deficit, per accompanying statement	(2,711,637)	(1,927,583)
Total shareholders' equity	13,553,872	17,802,926
	$20,884,195	24,098,484

On behalf of the Board:

J. NORMAN HYLAND, Director W.H. LOVE, Director

See accompanying notes to financial statements.

GRANDUC MINES, LIMITED (Non-Personal Liability)
Statement of Earnings and Deficit
Year ended December 31, 1974 with comparative figures for 1973

	1974	1973
Accrual basis share of defined net proceeds from operations by lessees at Granduc Mine (Note 1)	$ 3,266,498	2,203,686
Costs:		
Amortization of mine development and pre-production expenditure (Note 2)	2,872,656	1,042,366
Depletion of mining properties (Note 2)	127,821	46,381
Exploration and administration costs	112,979	58,424
Province of British Columbia capital tax	52,000	—
Interest on notes payable	27,038	—
Interest on advances from mining companies	266,006	298,517
	3,458,500	1,445,688
Less interest income	90,400	—
	3,368,100	1,445,688
Earnings (loss) before income taxes	(101,602)	757,998
Income taxes	—	332,000
Earnings (loss) before extraordinary item	(101,602)	425,998
Reduction of income taxes due to prior years' losses	—	332,000
Net earnings (loss) for the year	(101,602)	757,998
Deficit at beginning of year	(1,927,583)	(2,685,581)
	(2,029,185)	(1,927,583)
Accrued dividends on preferred shares purchased for cancellation	(682,452)	—
Deficit at end of year	$ (2,711,637)	(1,927,583)
Earnings (loss) per common share (Note 5)	$(0.10)	$0.14

See accompanying notes to financial statements.

GRANDUC MINES, LIMITED (Non-Personal Liability)
Statement of Changes in Financial Position
Year ended December 31, 1974 with comparative figures for 1973

	1974	1973
Funds provided by:		
Operations:		
Net earnings (loss) for the year	$ (101,602)	757,998
Add (deduct) items not requiring working capital during the year:		
Amortization and depletion	3,000,477	1,088,747
Interest on advances and notes	293,044	298,517
Share of mining income received in excess of amounts accrued	1,006,346	(2,203,686)
Funds provided (used) by operations	4,198,265	(58,424)
Issue of notes payable to shareholder (Note 4)	4,079,207	—
Total funds provided (used)	8,277,472	(58,424)
Funds applied to:		
Acquisition of 5½% cumulative redeemable preferred shares (Note 4)	4,147,452	—
Reduction in notes payable to shareholder	1,600,000	—
Reduction in advances from mining companies	1,749,589	—
Total funds applied	7,497,041	—
Increase (decrease) in working capital	780,431	(58,424)
Working capital (deficiency) at beginning of year	(10,134)	48,290
Working capital (deficiency) at end of year	$ 770,297	(10,134)

See accompanying notes to financial statements.

GRANDUC MINES, LIMITED (Non-Personal Liability)
Notes to Financial Statements
December 31, 1974

1. Mining properties:

Under the terms of a lease entered into on October 1, 1965, the lessees, American Smelting and Refining Company and Granduc Operating Company (a wholly-owned subsidiary of Newmont Mining Corporation) have developed and equipped the Granduc Mining property and from March 1, 1971, are obligated to pay the Company 22½% of the net proceeds from the mine, as defined. After 32,500,000 short tons have been milled the percentage is increased from 22½% to 25%. During 1974, the Company received payments from the lessees aggregating $4,272,844.

Not less than 80% of all amounts received from the lessees must be applied against the repayment of the advances from mining companies, the redemption of the preferred shares, and accrued interest and dividends, respectively, on these obligations accruing after March 1, 1971. During 1974, a total amount of $3,417,834 was paid out by the Company in accordance with the terms of the lease.

The defined net proceeds for any period are determined by deducting from the net smelter returns received in cash the operating expenses and capital expenditures incurred during such period. Any deficiency is deductible from future net proceeds.

The third column of the summary below sets forth the status of such defined net proceeds from March 1, 1971 to December 31, 1974. The first and second columns of the summary set forth the results on an accrual basis for the years 1974 and 1973.

	Year ended December 31, 1974 Accrual basis	Year ended December 31, 1973 Accrual basis	Period from March 1, 1971 to December 31, 1974 Defined net proceeds
Net smelter returns received in cash	$57,758,378	39,892,508	128,046,936
Deduct:			
Operating expenses	39,952,355	22,659,756	104,800,869
Capital expenditures	1,614,866	883,365	5,295,149
Estimated B.C. mineral land taxes	1,673,392	—	1,673,392
	43,240,613	23,543,121	111,769,410
Excess of net smelter returns over operating expenses, capital expenditures and B.C. mineral land taxes	14,517,765	16,349,387	16,277,526
Accumulated deficit at beginning of year	—	(6,555,226)	
Accumulated surplus at end of year	$14,517,765	9,794,161	
22½% share applicable to Granduc Mines, Limited	$ 3,266,498	2,203,686	3,662,444
Received from lessees in 1974	2,069,158	2,203,686	4,272,844
Deferred royalty receivable at end of year and cash (loss) carried forward	$ 1,197,340		(610,400)

2. Depletion and amortization:

Mining properties and mine development and pre-production expenditure are being amortized on the unit of production basis, based upon tons of ore milled and for which revenue has been realized. At December 31, 1973, depletion and amortization of $709,155 applicable to unsettled concentrates at that date which were valued at cost were deferred as the revenue from this production had not been realized. The unsettled concentrates at December 31, 1974 have been valued at estimated net realizable value and accordingly depletion and amortization applicable to this production of $755,794 has been charged against income for the year.

3. Income taxes:

Under the existing provisions of the Federal and Provincial Taxation Acts the Company will not be liable for federal income taxes and provincial mining taxes until its net earnings exceeds the accumulated mine development and pre-production expenditure.

4. Capital stock:

During 1974, the Company purchased and cancelled 693,000 5½% cumulative preferred shares. The cost of acquisition of $4,147,452 (par value $3,465,000 plus accrued dividends $682,452) was satisfied by the issue of $3,465,000 unsecured 5½% notes and, after the payment of withholding taxes of $68,245, by the issue of $614,207 unsecured non-interest bearing notes. Subsequently payments aggregating $1,600,000 were made on the unsecured 5½% notes leaving a balance outstanding on these notes at December 31, 1974 of $1,865,000.

Accrued dividends on the remaining 357,000 5½% cumulative preferred shares amounted to $376,337 at December 31, 1974. The preferred shares are redeemable at any time by the Company at par plus accrued dividends.

5. Earnings per common share:

Earnings per common share have been calculated by dividing the net earnings or loss for the year, after providing for dividends on the 5½% cumulative redeemable preferred shares, by the number of common shares outstanding.

6. Statutory information:

The aggregate direct remuneration paid to directors and senior officers of the Company during the year ended December 31, 1974 was $28,537 (1973-$16,555).

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Granduc Mines, Limited (Non-Personal Liability) as of December 31, 1974 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the adequacy of future earnings to absorb the amortization of mine development and pre-production expenditure and depletion of mining properties, these financial statements present fairly the financial position of the company at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles, which have been applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
February 18, 1975

Peat, Marwick, Mitchell & Co.
Chartered Accountants

GRANDUC OPERATING COMPANY
SUITE 520-890 WEST PENDER STREET
VANCOUVER, B.C.

REPORT OF OPERATIONS FOR THE YEAR ENDING DECEMBER 31, 1974

During the year January 1 to December 31, 1974, 63,758,209 pounds of copper were produced from milling 2,708,731 tons of ore with an average grade of 1.23% copper. Nine shipments of copper concentrate totalling 115,121 dry short tons were made from the Company's port facilities at Stewart.

Tonnage milled during the year averaged 7,421 tons per day, well over the plant design of 7,000 tons.

Mine

Underground operations were satisfactory although a shortage of skilled miners and mechanics hampered production during August and September. Considerable lost production was experienced during the first part of the year from breakages and operating problems with the main transfer belt which conveys ore from the underground crusher to the loading bins. A new belt was installed in March and performance has greatly improved. A new pitman shaft and bearings were installed in the underground crusher and it is operating well.

Block No. 1 was developed to the 2885 Level and Block No. 2 was developed to the 2940 Level. The program to evaluate and develop Blocks No. 3 and No. 4 between the 2600 (Main Haulage) Level and the 2100 Level was continued through the year. A decline, No. 6 Ramp, was driven from the 2475 Level to the 2130 Level. Levels were driven to the north and south from the ramp at 2220 and 2265 elevations and at year-end diamond drilling for ore definition was started from these two Levels. Preliminary studies were made to evaluate the capital and operating costs of various methods of mining the ore below the 2600 Level.

A summary of development work is as follows:

Primary Development Above 2600	
Service Ramps, Drifts, X-cuts	3,704 ft.
Miscellaneous Raises	67 ft.
Raises Bored	1,292 ft.
Total:	5,063 ft.
Primary Development Below 2600	
Service Ramps, Drifts, X-cuts	4,936 ft.
Miscellaneous Raises	442 ft.
Raises Bored	377 ft.
Total:	5,755 ft.
Sub Level Development	
Drifts and X-cuts	44,192 ft.
Miscellaneous Raises	454 ft.
Total:	44,646 ft.
Total Development	55,464 ft.
Excavations	22,304 cu.ft.

A total of 40,761 feet of diamond drilling was done during the year, primarily to provide more detailed ore definition. Of this total, 36,347 feet were done above 2600 and 4,414 feet were done below 2600 Level. This drilling was entirely carried out with Company forces rather than by contract.

A total of 2,712,120 tons of ore was delivered to the underground crusher.

Concentrator

Operating:

Treatment rate in the concentrator continued at above design capacity with good plant availability. The continuing program of modification and improvement of operations and equipment and the ongoing maintenance program resulted in a further reduction in breakdowns and downtime. Additional flotation cells were installed. The machinery foundations and the building for a washing plant to remove fines from the ore prior

to secondary crushing were completed. Work on the washing plant was delayed by the Province-wide construction strike and by late equipment deliveries. Equipment will be installed in 1975 as soon as weather conditions permit.

Metallurgy:

Dry Tons Milled	2,708,731
Dry Tons Milled Per Day	7,421
Mill Feed Grade — Copper	1.23%
Mill Tails — Copper	0.061%
Concentrate Grade — Copper	28.11%
Concentrate Produced — Dry Short Tons	113,408
Copper Recovery	95.22%

Plant and Mine Facilities

Plant facilities on surface at Tide and at Stewart and mine facilities underground continued to operate satisfactorily. Major changes were made to the underground electrical distribution system to improve availability. The rotors for the No. 2 turbo-generator in the power plant were removed for machining and realignment. Both generating sets are now in good operating condition.

Claims, Leases and Licences

All titles and licences were maintained in good order. The reclamation permit was renewed at year end for a further three-year period. The number of mineral claims held at year end remained unchanged at 253.

Stewart — Tide Road

The program to improve the surface of the road between Stewart and the mine-site was continued, with gravelling and grading being carried out during most of the summer. Snowfall was lighter than usual, with only 683 inches recorded at Tide during the 1973-74 winter. No road closures were experienced. Summit Lake emptied during September, but because of the dyking work done in 1973 and 1974, little damage was caused to the road by the flood waters.

Employee Relations

Negotiations for new collective agreements were concluded with the "Tri-pact" unions representing the mine and plant employees and with O.T.E.U. representing the office and technical employees. These agreements, which provided substantial increases in wages and fringe benefits, are effective until June 30, 1976. In July, an illegal walkout of main-line locomotive operators stopped production for four days.

Ten new house trailers were purchased and installed in the Stewart townsite to help alleviate the shortage of tradesmen. Labour turnover was relatively low until about June, when labour negotiations were in progress. The work force, particularly electricians and other tradesmen, was well below normal requirements until October, when lay-offs in the forest industry provided some relief.

Production Cut-back

In December it was decided to reduce the production at Granduc by approximately 50% to about 4,000 tons per day. This action was necessitated by the combination of the unusually rapid increase in the costs of all supplies, materials and labour, the drastic decline in the price of copper during the latter half of the year and the effect of the policy of mining royalties imposed by the government of British Columbia.

This cut-back involved a reduction in the work force from over 800 to less than 400. All mine development work was stopped, with the reduced ore requirements to be supplied from previously developed ore-blocks. This program was carried out in an orderly manner, with the planned objective attained in February 1975.

This decision is in effect a "holding action" which allows the mine to be kept in operation with minimum cash losses for a period of time in the hope that economic conditions will improve. It has the advantage of allowing the Company to retain a substantial number of our employees and to keep the mine in condition so that full production would again be possible when the situation warrants.

Respectfully submitted,
J.H. PARLIAMENT
Vice President
& General Manager

February 28, 1975
Vancouver, B.C.

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